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Incorporation of Environmental, Social and Governance (ESG) Factors by Investment Professionals for Measuring Performance of Investee Companies

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Abstract:

Measuring performance of companies is one of the key responsibilities of investment professionals. Traditionally, investment professionals used to rely upon information available in financial reports of investee companies. The notion of sustainable and responsible investing has become a dominant force which has encouraged companies to take environmental, social, and governance (ESG) factors into consideration in order to ensure that their respective business models are sustainable. Large corporations now tend to report ESG data alongside financial reports. Investment professionals, especially financial analysts working for institutional investors, state that they consider ESG criteria in their investment decision-making process. However, little is known about the process which allows them to consider ESG information revealed by investee companies in the absence of a globally accepted ESG reporting standard. This paper aims to comprehend how available ESG information is being incorporated into the process of investment decision-making and its implications on performance management. A wide range of existing literature has been analysed to determine the current methods which financial analysts rely on for incorporating ESG information in their decision-making process. It has been showed in this paper that there is a need for conducting further research on how investment professionals utilise ESG information.

1.0 Introduction

It is often alleged by academics that traditional financial reporting alone is not capable of fully illustrating corporate performance. An increasing gap has been observed between financial reporting and firm value results which, arguably, is indicative of the declining ability of traditional financial reporting to present information that is useful in assessing firm value and management performance (Bassen & Kovacs, 2008). Western countries have shifted towards service and information-oriented economies and as such intangibles account for a significant amount of a company's long-term value. It has been argued that traditional financial reports fail to capture the value of reputation, safety, workplace culture, strategies, and many other factors which are of great importance in a knowledge-based global economy. More than 50% of the total global institutional assets base is currently being managed by Principles for Responsible Investing (PRI) which demonstrates that financial markets are gradually incorporating environmental, social, and governance (ESG) criteria within investment decisions (Friede, Busch, & Bassen, 2015). This has led to a demand for information not only about financial performance of companies but also about performance of those companies in areas which have impact upon the environment, the society, and a range of stakeholders. It can therefore be asserted that ESG criteria are very much relevant for performance measurement as this has resulted from an evolution towards a type of performance management by corporations which ensures growth as well as sustainability.

The focus of this paper is, however, not on the quality of ESG reporting. This paper aims to comprehend how available ESG information is being incorporated into the process of investment decision-making and its implications on performance management. The demand for high quality and comparable ESG data has continued to grow along with empirical evidence that incorporation of material ESG data in investment decisions is related to superior financial performance of investment firms (Beal, et al., 2017). Despite such growth in demand for ESG data, only a quarter of investment professionals actually consider extra-financial information in their investment decisions. The number of investment professionals who receive formal training on incorporation of ESG criteria in investment analysis stood at 10% until 2015 (CFA Institute, 2015). It is therefore important to understand how investment professionals incorporate ESG information in investment decision-making process. Institutional investors are capable of playing a key role in ensuring that ESG criteria are applied in investment analysis as this will encourage the investee companies to seriously consider ESG factors in a meaningful way. The aim of this paper is to comprehend the way ESG criteria are being incorporated into the investment decisions taken by investment professionals. The role of institutional investors has been discussed in the following section. Then the notion of responsible investing has been highlighted along with the notion of stewardship. Finally, the methods relied upon by investment professionals in incorporating ESG factors have been evaluated.

2.0 Institutional Investors

2.1 Defining Institutional Investors

Investors can be categorised into many different types based on a range of factors. Researchers classify investors based on attributes which are relevant for their studies. For example investors have often been categorised either as retail investors or institutional investors for conducting studies on volatility and investor ownership (Foucault, Sraer, & Thesmar, 2011) (Brandt, Brav, Graham, & Kumar, 2010). Generally, investors are categorised into five groups; individual investors, corporate investors, state investors, foreign institutional investors, and domestic institutional investors (Che, 2018). Domestic institutional investors and foreign institutional investors are often grouped together as institutional investors, representing a major force in capital markets of an economy. State and corporate investors are often overlooked when assessing investors' impact on capital markets because they are mainly motivated to hold stocks based on political incentives or strategic reasons, respectively. Hence two of the broadest and very important classes of investors are the institutional investors and the individual or retail investors. The term 'institutional investors' almost always include, but is not limited to, insurance companies, mutual funds, and pension funds (Ruiz, 2018). Institutional investments are mostly managed professionally, except in few cases such as non-discretionary accounts in professionally managed funds, and uphold the notion of separation of ownership and control of funds. This makes intuitional investors distinctive compared to individual investors as individual traders mostly rely on their own decision-making abilities while retaining significant risks by holding investment for themselves. Professional management of funds can be carried out on a collective basis, such as a mutual fund, or client-by-client basis by obtaining mandate for a discretionary portfolio management account (Basile, 2016).

2.2 Role of Institutional Investors in Investment Industry

Professionally managed investments guide much of the direction of investment market's movements as they have the capacity to employ in full-time research and opportunity-seeking. It has been observed that institutional investors have different preferences for stocks compared to other investors as they tend to prefer stocks which are larger, have more liquidity, possess value characteristics, and have lower return momentum (Gompers & Metrick, 2001). Institutional investors are often termed as arbitrageurs or rational speculators and their investments are often called 'smart money' compared to individual retail investors who are known as noise traders, behavioural traders, liquidity traders or irrational investors (Zeng, 2016). It has been showed that institutional investors impact investment markets and industry through their large volume of trades and holdings as well as by increasing efficiency in the whole investment decision-making process (Ruiz, 2018). A study found that while individual investors tend to herd towards the general direction of the market, institutional investors are less prone to do so due to their more planned approach towards investing (Li, Rhee, & Wang, 2017). Hence the role of institutional investors could be argued to bring more stability to investment markets.

Another important role of institutional investors, or professional investment managers, is that they provide individual investors with the opportunity to opt for managed funds that is more suited to their style and level of involvement. Individual investors can participate in a range of exchange traded funds and index funds which include both actively and passively managed funds at a lower cost owing to the presence of institutional investors. This provides individual and other forms of investors flexibility in employing their long-term capital using professional investment managers. It can be noted that in recent decades the rise of defined contribution pension schemes has been shifting pension schemes away from being a corporate (or state) liability, as in the case of defined benefit schemes, to professionally managed funds which has led to an increase in the dominance of institutional investors in capital markets widely known as pension funds (Ongena & Zalewska, 2018). This, together with plethora of innovative investment vehicles being designed in recent times, has resulted in an increase in the popularity of professionally managed funds. Assumption of such innovative roles have made institutional investors highly important in the capital market.

2.3 Investment Spectrum of Institutional Investors

Institutional investors provide choice to investors, known as investment spectrum, tailoring funds that cater to each investor's needs. This is usually done through developing specific investment mandates through investment policy statements (IPS). An IPS usually denotes the return objectives and constrains such as level of risk-taking permissible in attaining that return objective (CFA Institute, 2010). The most visible investment spectrum for an investment vehicle managed by an institutional investor, in traditional investing, is the risk tolerance spectrum. There is a range of investment choices including low risk fixed income investing, large-cap investing, mid-cap investing, international investing, small-cap investing, and specialty funds which all have varying degree of risk attached to them. However, such investment spectrum falls entirely within what can be termed as traditional investing if social, governance, and environmental factors are completely disregarded. A new spectrum has emerged in recent years beyond traditional investing which can broadly be referred to as responsible investing.

United Nation's Principles for Responsible Investment defines, "*Responsible investment is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns*" (UNPRI, 2018). Terms such as responsible investing, sustainable investing or impact investing are part of the ESG investment spectrum. Some academics distinguish between these terms whereas others use different ESG issues to draw up investment spectrums within an umbrella term such as responsible investing or sustainable investing. Other terms, such as impact investing, are more specialised. Impact investing focuses on particular social issues in an attempt to alleviate such issues through targeted investing (Global Impact Investing Network, 2018). Investment spectrums of institutional investors thus range along various considerations, from traditional risk tolerance spectrum or framework, to the more recent ESG consideration spectrum. Such variations in investing opportunities can be argued to have paved the way for promoting responsible investing.

3.0 Responsible Investing

3.1 Shareholder Primacy and Corporate Objective

It is difficult to state clearly what the objective of a public company is as this has remained debatable for a long time (Keay A., 2007). Professional managers gained increasing control over the management of companies as the operational and internal structures became complex which resulted in a separation of ownership and control (Abbasi, 2009). This idea that a group of individuals who are not owners of the company can be in control of the management of it had given rise to the legitimate question that in whose interests a company should be run by its managers. Company directors have enjoyed a great deal of autonomy in managing companies under the English legal system as directors are regarded as agents of the company rather than as agents of its shareholders. This changed over time as shareholder value approach, which has been claimed to have the potential of tackling the problem of monitoring the managers and reducing agency cost, became widespread in the United Kingdom (Johnston, 2006). It can therefore be commented that shareholder primacy prevails in the United Kingdom which is in alignment with corporate structure in the United States.

Shareholder primacy has led to two theories being developed - shareholder value-oriented approach and stakeholder-oriented approach (Keay A., 2007). These two theoretical approaches can be discussed in light of two distinct economic models - the agency model and the productive coalition model. It is asserted by the proponents of the agency model that companies should be managed for the best interests of its shareholders as the shareholders are the only residual claimants (Johnston, 2006). The proponents of the productive coalition model assert that a wide range of stakeholders should also be considered as residual claimants of a company besides shareholders and such interests of all these stakeholders must be considered while managing companies (Parkinson & Kelly, 1998). It can therefore be argued that corporate objective is contentious as embracing either of the approaches has far-reaching implications. Shareholder value approach has not been embraced in the United Kingdom from a legal point of view as this contradicts with the fundamental notion of companies having a separate legal entity (Roach, 2001). This paved the way for the stakeholder-oriented approach to come to the forefront with respect to ascertaining corporate objective.

3.2 Role of Shareholders in Promoting Long-termism

The notion of shareholder engagement in investee companies has come to the forefront since the global financial crisis and those involved in corporate governance and market discipline regime in the UK have started to perceive it to be of significant importance (Chiu, 2014). For obvious reasons, it is the institutional shareholders who come first in any discussion related to shareholder engagement. It is argued that institutional investors have the required proximity as well as essential resources to undertake the responsibility of monitoring investee companies which can potentially turn into an effective force for governance (Chiu, 2012). Croce stated in this regard that, '*Informed, knowledgeable investors are the basis for good governance and a proper alignment of incentives*' (Croce, Stewart, & Yermo, 2011). It is thus essential to enhance governance in large institutional investors so that others, including investee companies, reconsider their actions accordingly.

The rhetoric of shareholder value which prevailed over the past century had been alleged to be one of the contributors to the financial crisis which took place in the previous decade (Tomasic & Akinbami, 2011). It has been commented that in America a gradual movement away from a shareholder primacy model has been observed as shareholders enjoyed decreased power to interfere with management decisions which subdued shareholders' role to a great extent and Bainbridge phrased this regime to be 'director primacy' (Bainbridge, 2003). It has been contended by Bainbridge that the corporate decision-making should be vested in the board which he termed to be the single and central organ (Bainbridge, 2008). However, it should be noted that shareholders' power to interfere with the board's authority is limited as a matter of law and therefore the business decisions remain in the realm of the management or executive directors till date (McDonnell, 2009). Adam Smith commented in the seminal book, *The Wealth of Nations*, that managers of businesses look after the wealth of other people and as such they cannot be expected to do so with the same care as partners or sole proprietors (Fox & Lorsch, 2012). Various groups vowed for change urging shareholders and other stakeholder groups to play a more involved role in companies especially in the running of large financial institutions (Ebrahimi, 2009). It has been argued that empowerment of shareholders should become a priority for bringing change in the realm of corporate governance (Tomasic & Akinbami, 2011).

Shareholder empowerment should not be viewed to be a strategy for destabilising the settled notion of separation of ownership and control. The notion of separation of ownership and control has been commented to have stood the test of time and therefore the current regime which limits shareholder voting rights should not be drastically altered when it comes to shareholder activism (Bainbridge, 2006). Those who advocate the so called notion of director primacy argue that the board already enjoys discretion in considering stakeholder interests and as such all corporate decision-making should remain in the purview of the directors and it is also feared that shareholder empowerment may actually jeopardise the furtherance of stakeholder interests by pressing the directors to focus solely on shareholders' wealth maximisation (Ho, 2010). It should be taken into consideration that shareholder voting should not be understood to be a primary instrument of corporate decision-making process rather it is a mechanism which is there to ensure accountability of corporate decisions made by directors and managers (Bainbridge, 2006). Nolan (2003) is of the view that shareholders should have a wide range of powers which allow them to act as controllers and monitors of their companies collectively.

It should not be accepted without any inquiry that it is the managers who are pursuing the short-term interests. It is alleged that majority of the UK boards face short-term pressures from the investors and the markets despite focusing on long-term strategy (Department for Business Innovation & Skills, 2011). One of the reasons which has allegedly paved way for short-termism is the pressure from shareholders for gains. Private hedge funds have traditionally been perceived to be aggressive in increasing earnings hastily but it has been argued that the phenomenon is prevalent throughout the system (Keay A. , 2011). One of the consultation papers by CLRSG indicated that managers who were responsible for running the companies in the UK were under pressure from shareholders to pursue short-term benefits (Keay A., 2011). Keay argued that demands of shareholders for hasty earnings growth is one of the factors which had pressurised, what he termed as 'short-termist pressure', directors to adopt strategy based on high leverage and reduced investment which escalated the risk unbearably and eventually led to the recent financial crisis. It has been argued that in the past two decades high risk ventures have been favoured by institutional investors with a view to uplifting profit and in this connection the boards were being given mandates which were clearly short-term in nature (Jacoby, 2008). Thus it is important to carefully consider the role of shareholders, besides the role of directors, in promoting long-termism within companies.

3.3 Institutional Investors and Stewardship

Most experts in the field of financial economics and corporate law perceive shareholders to have the same objective of maximisation of value of their shares but it is argued by commentators that shareholders' goals can be contradictory as they may have either the goal to maximise short-term value of the shares or to maximise the value of the shares in the long-term (Dent, 2010). However, going against the common assertions that shareholders have divergent objectives and that they prefer short-term success at the expense of long-term interests, Dent has commented that shareholders are generally united as they have the common objective to maximise share value. Although such claim may have some force from a macro perspective, ultimate shareholders are individuals and thus individual interests of shareholders can diverge to a great extent (Stout, 2013). The crucial point that needs to be considered with regard to such divergence is that the shareholders themselves are sometimes associated with shot-termism. In Walker Review, a review conducted in the United Kingdom, shareholders who focused on short-term performance were perceived to be a catalyst of the financial crisis as shareholder-expectations are capable of creating pressure on the directors which is known as short-term performance pressure (Walker, 2009). Besides expectation of hasty gains, shareholder pressure for short-termism is a reason which leads to complexities in evaluating corporate performance where long-term measures are in place (Keay A. , 2011).

It is important to carefully consider whether or not the notion of institutional investor engagement or stewardship is supported by economic theories that prevail in the realm of corporate governance. Johnston has opined that short-term or speculative shareholders are unlikely to take part in corporate governance as they have the option to protect their interests by getting rid of the shareholdings (Johnston, 2006). Such short-termism has been claimed to be rooted in the structural problem and are unlikely to be eradicated just by aligning directors' interests with those of the shareholders (Chiu, 2014). Chiu is of the opinion that shareholders' lack of engagement is rooted in the structural issue of short-termism as institutional shareholders are inclined towards delegating investment management to asset managers who focus on the short-term horizons of investment management. In a research it was stated by Keating, who is the head of research at Brighton Rock Group, that shareholders are capable of bringing behavioural changes in companies but most of the time such influence is being exerted by shareholder groups with short-term objectives (Hilton, 2015).

Guidance on expected behaviours can contribute significantly in promoting the engagement of institutional investors that is aligned with long-term objectives (Croce, Stewart, & Yermo, 2011). Since short-termism has been attributed to some of the actions and behaviours of both shareholders and managers, it is important to consider these factors carefully in order to prevent short-termist approach within corporations. When companies are managed with a view to gaining short-term earnings, it may potentially compromise shareholder value because such management practices compel directors to delay necessary investments which are key to enhancing value and this paves the way for the directors to take advantage of various accounting and reporting rules to present financial health of the company in an illusory manner (Rappaport, 2005). In the Walker Review it was proposed that short-termism could be countered by encouraging major shareholders to get involved in effective stewardship and enhancing the governance with respect to remuneration of managers (Keay A. , 2011). It can therefore be commented that mechanisms for measuring performance of companies from a value perspective are of immense importance.

4.0 ESG Factors and Investment Decision

4.1 Institutional Investors and ESG Factors

It has been observed in a research conducted by Stat Street that only 21% of institutional investors embraced full ESG integration (Eccles & Kastrapeli, 2017). It has also been revealed in a research on ESG integration that the average self-reported ESG integration score is 2.33 on a scale of 4 where 1 is equivalent to no integration and 4 is equivalent to full integration (Duuren, Plantinga, & Scholtens, 2016). It also transpired from the analysis of the data collected in that research that asset managers prefer to rely upon modified research inputs such as ratings and company analysis for incorporating ESG factors in their fundamental analysis rather than taking unmodified raw data into consideration. The findings of ESG survey conducted by CFA institute are also consistent with the findings of Emiel van Durren, Auke Plantinga, and Bert Scholtens as it showed that 57% of the analysts asserted that they integrate ESG factors in their investment analysis and decision-making process although only 28% of the respondents indicated that they had received training on how to effectively consider ESG factors in investment decision-making process (CFA Institute, 2015).

It has been commented that integrating ESG analysis into financial analysis is one of the fundamental steps towards reducing barriers to ESG integration by providing training to portfolio managers and analysts (Eccles & Kastrapeli, 2017). It is therefore important to understand how ESG factors are incorporated in investment decision-making by financial analysts. There is also of great degree of variance in the use of each of these environmental, social, or governance factors by analysts as it was revealed in the 2017 survey that 54% of the respondents considered environmental factors, 54% considered social factors, and 67% considered governance factors (CFA Institute, 2017). It is therefore important to understand how each of the ESG factors is being incorporated into decision-making process. This study aims to encapsulate how financial analysts incorporate each of the ESG factors in their investment decision-making process and how these are weighed up in measuring long-term performance of the investee companies.

4.2 Incorporation of ESG Factors in Investment Decision Making

It is of immense significance to comprehend the concepts of psychology, sociology, and finance in order to conduct studies on issues related to behavioural finance (Ricciardi & Simon, 2000). It has been commented that finance professionals often make decisions in contexts where subjective factors predominate and as such they often tend to focus on one relevant factor whereas other factors are minimised (Prentice, 2007). Financial analysts working in the investment industry have well-established models, such as capital asset pricing model or the dividend discount model, for dealing with market data and fundamental data. However, there is a lack of valuation framework which relates ESG factors to stock prices and this has been argued to be the greatest challenge for financial analysts for integrating ESG factors into their decision-making process. It has also been showed through empirical research that dominant collective beliefs, which is referred to as conventions, often impede the ability of financial analysts to integrate ESG information during equity valuation (Guyatt, 2005).

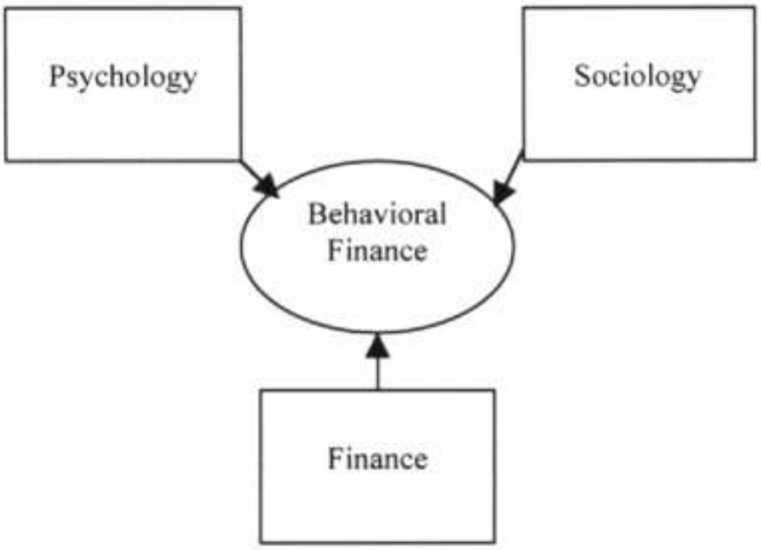

Figure 1: Interdisciplinary relationships integrating behavioural finance (Ricciardi & Simon, 2000).

An embryonic grounded theory underlying fund management structure and behaviour has been revealed by a number of researchers including Clarkson (1963) and Holland & Doran (1998). However, it has been commented that the resulting theory failed to address questions regarding wider organsiational and process-related aspects (Holland, 2016). A descriptive model of decision-making process adopted by professional financial analysts were produced by Bouwman et al (1987). The research considered the identification of the decision-making process, the decision rules, and the types of knowledge related to the task. This process view of financial decision-making indicates that financial analysts incorporate new findings that may significantly change their knowledge. However, this model of financial screening task does not allow one to comprehend how ESG factors can actually be incorporated into the decision-making process.

It has been commented that researches regarding earnings forecasts have focused narrowly on the statistical properties without considering the full context of the decision-making process of financial analysts (Schipper, 1991). The research reports produced by financial analysts depend on a number of factors including regulatory, economic incentives, behavioural biases, and institutional factors (Ramnath, Rock, & Shane, 2008). It is important to comprehend the environment in which financial analysts work because the decision-making process is influenced by the environmental factors. Traditional financial analysis often tends to focus on short-term earnings which makes it difficult for financial analysts to integrate ESG factors as these factors are drivers for mitigating low frequency but high impact risks in the medium to long term (Briand, Urwin, & Chia, 2011). Investment professionals are unable to measure performance of companies beyond conventional parameters in the absence of a method that allows them to consider factors which are hard to present in numerical values. This is where the need for further investigation into the decision-making process of financial analysts transpire.

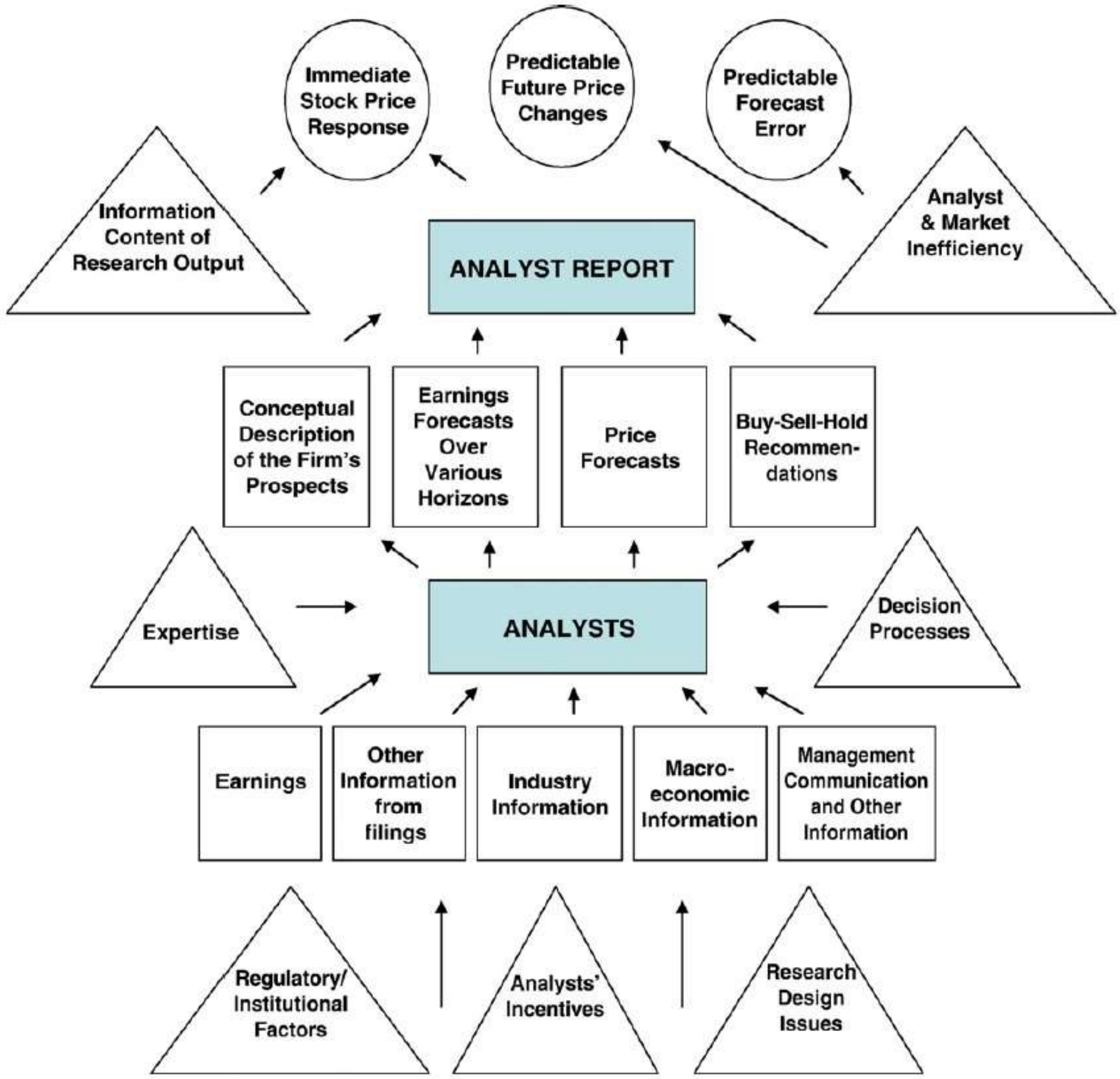

Figure 2: Analysts' reporting environment (Ramnath, Rock, & Shane, 2008)

The incorporation of ESG factors into the decision-making process can have two dimensions: financial dimension and values dimension. It is of significant importance to consider the motivations of financial analysts behind incorporating ESG factors into the decision-making process although incorporation of ESG factors may encompass both financial and values considerations. The methods relied upon by investment professionals in incorporating ESG factors can be very different depending on the underlying investment strategy. ESG information required by financial analysts who adopt an investment strategy based on values dimension is likely to be different from those who consider ESG factors from a purely fiduciary dimension. Traditional financial analysts tend to focus on short-term earnings and operate within short-term benchmarks. It is therefore difficult for them to make sense of ESG factors which are aimed at uncovering long-term risks. This often inhibits mainstream financial analysts from incorporating ESG factors effectively into their decision-making process.

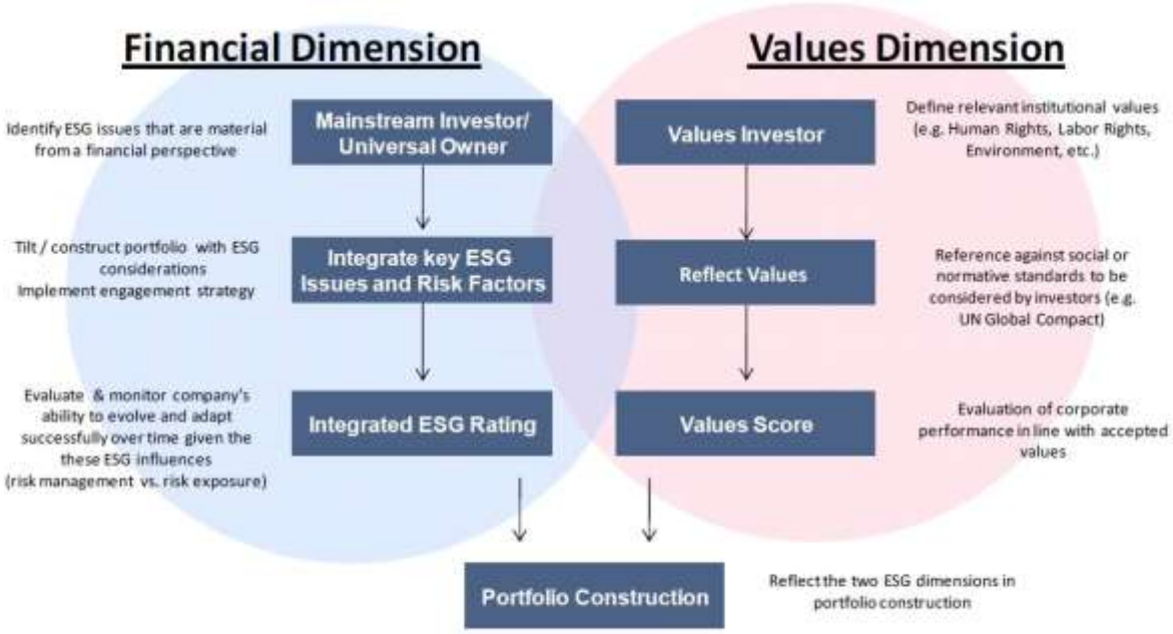

Figure 3: Two Dimensions of ESG Investing (Briand, Urwin, & Chia, 2011)

The aim of this paper is to comprehend how financial analysts convert ESG information for making such information usable into their equity valuation model. It is therefore of significant importance to identify the decision-making process that such financial analysts are following at operational level. The key focus has been on understanding in which stage of the research ESG information is considered and how such information is translated into the report produced by financial analysts. It appears that there is a lack of standardised method for incorporating ESG factors especially when the primary motive for valuation of companies is fiduciary in nature. This is likely to undermine the purpose of sustainability reporting by companies in the absence of a widely accepted method for investment professionals to utilise ESG information. Therefore, a globally accepted standard for reporting of ESG information and an effective method for measuring performance of companies in both financial and sustainability criteria must be developed without any delay.

5.0 Conclusion

Integration of ESG data, both quantitatively and qualitatively, into investment decision-making frameworks and models remains a comparatively new field of study that has seen much development in the last few years. While negative screening or thematic investment is the traditional way of using ESG data in investment decision-making, it is not integration in the conventional sense as it does not integrate well with traditional frameworks and models of investment analysis and valuation. ESG integration, on the other hand, takes ESG-related data and information and mixes them up with traditional financial performance metrices to come up with investment decisions and expectations regarding risks and return. ESG integration can use both external information such as indices published by professional organisations and agencies and data published by corporations themselves, voluntarily or mandatorily, and use other independently sourced data to come up with proprietary research. This internal analysis of ESG information can be compared to internal grading of credit assessment used by corporations for credit customers and by financial institutions for borrowers.

ESG reporting is going through a transition period as it is not mandatory for companies to include this area in the reports which they are legally obliged to produce. As such, ESG reporting is still considered to be voluntary. London Stock Exchange does not require ESG reporting, but highly recommends it for issuers, and also publishes guidance reports for reporting such information (London Stock Exchange Group, 2018, p. 4). ESG reporting is still developing with more than 230 different reporting frameworks (XBRL, 2018). Industry experts have recently been calling for more uniformity and standardisation, with some even suggesting digitising the reporting in the same fashion as XBRL, or eXtensible Business Reporting Language, a smart-tagging based business reporting standard promoted by many stock exchanges, including London Stock Exchange. That goal remains distant for now. Sustainability or corporate responsibility reports, as they are usually termed, when follow such guidance increase their credibility. Principles for Responsible Investment, or UNPRI, is a United Nations mandated platform which promotes ESG reporting, and it publishes high quality report and guidance for integrating ESG data to be used by asset managers, as well as index publishers, through its many case studies (UNPRI, 2018). As ESG reporting and integration are relatively recent field in the investment arena, such guidance provides invaluable resource for issuers and investment analysts & managers alike. However, it is equally important to develop a method or framework that will allow financial analysts to incorporate ESG information into their decision-making process effectively.

It is high time that further research is carried out with a view to developing a method which will allow ESG information to be measured from fiduciary perspective as well as values perspective. An analysis into the comprehensibility of ESG data, especially the self-reported corporate disclosures in Annual Reports and/or Sustainability or Corporate Responsibility Reports, will allow practitioners, academics, and regulators to appreciate the effectiveness of existing performance measuring methods in considering ESG factors. ESG factors are capable of providing investment professionals with insights about long-term performance of companies and incorporation of such ESG factors into investment decision-making process in a meaningful manner will ensure that emphasis is given on sustainability of companies as well as earnings and growth. It has been showed in this paper that there is a need for conducting further research on how investment professionals utilise ESG information. The lack of a globally accepted standard for incorporating ESG information in valuation and performance measurement of companies can potentially undermine the movement for creating pressure on companies to focus on sustainability issues. This is an area which should draw attention not only of the people from the field of corporate governance but also of the people from the field of performance management. Performance of companies can no longer be simply measured in terms of earnings and growth. A wide range of sustainability factors must be included in measuring and manging performance of corporations.

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